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# CENTRAL INTELLIGENCE AGENCY

## PROSPECTS FOR INTERNATIONALIZATION OF AIR TRANSPORT

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## PROSPECTS FOR INTERNATIONALIZATION OF AIR TRANSPORT

## SUMMARY

Internationalization of civil aviation embracing international air transport operations throughout the world, under one or more operating organizations is scheduled for debate at the 1 June Second Assembly of the International Civil Aviation Organization (ICAO). While it is unlikely that such a far-reaching plan will receive favorable consideration, it is probable that the discussions will carefully explore the formation of regional pools of air transport companies designed to centralize direction and effect economies.

Consideration of this subject by ICAO will probably advance the formation of a regional pool for the air lines of Western Europe; it may also promote similar action by countries in the Near East, South America, and Australasia. US long-range air-carriers will be affected by the increased competition of regional air transport pools. Furthermore, an attempt by regional pools or other international groups controlling world routes to deny US air lines important traffic rights, could threaten the present US preeminence in long-range commercial aviation.

If the US encounters a threat to its present strong position in international air transport and is willing to exert pressure on foreign countries at high governmental levels, these countries will generally hesitate to discriminate against US air lines.

Note: The information in this report is as of 15 May 1948.

The intelligence organizations of the Departments of State, Navy, and Air Force have concurred in this report. The Intelligence Division, Department of the Army, submitted no comment.

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## PROSPECTS FOR INTERNATIONALIZATION OF AIR TRANSPORT

Internationalization of civil aviation embracing all international air transport operations throughout the world under one or more operating organizations will be debated at the forthcoming Second Assembly of the International Civil Aviation Organization (ICAO) which convenes 1 June at Geneva.

### 1. CONDITIONS GENERATING PRESSURE FOR INTERNATIONALIZATION.

With few exceptions, the major air lines flying international routes have encountered increasing operating deficits despite an increase in air travel. The principal factors which contribute to these difficulties are the high cost of equipment, service and repair facilities, and the degree of technical proficiency required for operation of long-range air services. Many countries are reluctant to continue indefinitely uneconomical competition for the present limited amount of air traffic and are unwilling to provide the excessive subsidies which have become essential to the maintenance of their air lines. They are, therefore, receptive to a solution which would reduce costs and permit the continued operations which they desire for reasons of national policy and prestige.

### 2. STEPS PREVIOUSLY UNDERTAKEN TO PROMOTE INTERNATIONALIZATION.

The concept of a single international organization to operate services on the world's trunk air routes has long been held by a number of countries now engaged in international air transport operations. As a result, the Chicago Convention of 1944, to which all ICAO members are signatory, specifically states that nothing in the Convention shall prevent two or more contracting States from constituting joint air transport operating organizations and international operating agencies, or from pooling their air services on any routes or in any regions. The Convention even permits the ICAO Council to suggest to contracting States that they form joint organizations.

In the summer of 1947, the First General Assembly of ICAO instructed the ICAO Council to ask the contracting States to study possible plans for internationalization of air transport. In order that member countries might be prepared in advance for an expression of views on this subject, a letter was despatched by ICAO to contracting States in July 1947 asking them to submit the results of their studies of possible plans for the organization of international air transport under the following headings:

- a. "a single organization to operate the world's trunk routes";
- b. "organizations to operate trunk services within a given area by combining the national interests concerned (for example, Europe)"; and
- c. "organizations for the international operation of services on individual routes with the object of producing a single international instrument combining all or some national organizations operating on particular routes (for example, Europe to South America)".

Replies to the ICAO letter on "internationalization" were submitted by only eight countries, four of which (Belgium, China, Nicaragua, and Switzerland) offered no suggestions. Argentina indicated opposition and the Union of South Africa considered that the world was not yet ready for concrete proposals on air transport internationalization. Denmark and Sweden, although already involved with Norway in a consortium for the operation of Scandinavian Airlines (SAS) declared that they had not yet gained sufficient experience from which to draw conclusions. On the other hand, France and the UK have made careful studies of the problem of internationalization and are expected to advance definite proposals at Geneva at least with regard to a European pool of air transport companies.

### 3. ANALYSIS OF PLANS FOR INTERNATIONALIZATION.

It appears that under the ICAO plan (a), a pool of aircraft would be made available to a single international operating company established under ICAO and financed by member countries.

Under plan (b) air lines operating over trunk routes within a given region would be either (1) owned and operated by a single regional organization as in plan (a), or (2) would be pooled under a single management but would retain their corporate identity and operate their own equipment with their own personnel under control by the governing body only as to routes, rates, frequencies and capacities.

Under plan (c), which is in effect an extension of plan (b, 1) or (b, 2), a regional air transport pool or a single air line could combine with others in an international organization for operations on trunk routes into other world areas.

Proponents of plans (a) and (b, 1) cite the following advantages:

- a. standard policy;
- b. uniform operating procedures;
- c. unification of administrative functions;
- d. simplification of repair and maintenance problems;
- e. elimination of uneconomical routes.

On the other hand, proponents of plan (b, 2), while claiming the advantages of the other plans for their own, point to plan (b, 2) as avoiding the obvious dangers inherent in plans (a) and (b, 1) such as:

- a. monopoly control, making for inefficiency through lack of competitive stimulus;
- b. surrender of national control to an international body;
- c. threat to national security if a breakdown occurs in the international harmony necessary for international operations.

It is not likely that the proposal for international ownership and operation of air services (plans a and b, 1) will gain general acceptance at this time. Detailed discussions will develop, however, on the formation of regional pools of air services as outlined in plan (b, 2).

The anticipated discussion of plan (b, 2) will find active support from a number of countries important in the air transport field, and will probably advance the forma-

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tion of a Western European air transport organization. The nations cooperating in the European Recovery Program will point to the logical application to civil aviation of the principle of collaboration in Europe. The security of participating countries, furthermore, would be safeguarded under this plan as the air lines would retain their own operating organizations and a certain degree of autonomy. Thus, in event of a dissolution of the pool, the participants would be capable of continuing essential air transport services.

#### 4. EFFECT OF FOREIGN AIR TRANSPORT POOLS ON THE US.

The US, with the greatest air traffic potential in the world within its borders, and capable of financing its international air operations without recourse to multi-lateral division of expenses, has no compelling incentive to participate in a single international operating organization (plan a), nor would US air lines flying world trunk routes have reason to join in regional air transport pools (plans b, 1; b, 2). As a participant in such international operating organizations, the US would be required to accept curbs directly opposed to the principles of free and equal competition it has advocated since the Chicago Convention of 1944. As a non-participant, however, the US would encounter growing competition resulting from the increased efficiency and reduced operating costs effected by foreign air transport pools of air lines either government-owned or heavily subsidized. This eventuality, though of serious concern to US air carriers, would not necessarily preclude profitable operations unless an attempt were made by such pools to reserve all air traffic over important segments of their routes to their own air lines.

Although the Scandinavian countries, now operating international air carriers under a combined management, have made no attempt to deny foreign air lines the right to pick up traffic in one Scandinavian country for transport to another, a precedent for discrimination by agreement already exists in the case of Portugal and Spain. Traffic between these countries has been largely reserved to their own air carriers. Furthermore, there is mutual recognition of the "special nature" of traffic between Portugal and Brazil on the one hand and between Spain and the Spanish American Republics on the other. Other nations whose air lines also fly between Iberia and South America, have been forced to recognize the "special character" of traffic moving over this route and are not permitted to compete for it.

Should this attempt toward restriction of outside interests spread to other world trunk routes (a possibility, under plan c), US air lines would encounter a contracting overseas market which might threaten the present US lead in world-wide commercial aviation. Under these circumstances, the US might be faced with the alternative of (1) consolidating US overseas air transport operations under a single management in an effort to meet the competition of combined foreign interests, or (2) protecting US air interests by the application of political pressure at the highest foreign governmental levels. In the latter event, foreign countries, though able to demand or withhold concessions to US air lines on relatively minor issues, would not be able to deny traffic rights considered by the US to be essential to its national interest.

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While it does not now appear likely that complete internationalization of air transport will develop in the foreseeable future, US strategic interests might be adversely affected if the trend is not carefully controlled. The formation of international operating organizations, for example, could threaten the method of direct negotiations by which the US now obtains air agreements with other countries for rights at foreign civil air bases.

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